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C O N F I D E N T I A L SECTION 01 OF 02 DUBLIN 000183

SIPDIS

TREASURY FOR VIMAL ATUKORALA

E.O. 12958: DECL: 05/05/2019
TAGS: EFIN ECON PGOV PREL EI
SUBJECT: IRISH BANKING: NO LONGER ENAMORED WITH NAMA

REF: A. DUBLIN 167
¶B. DUBLIN 130
¶C. DUBLIN 086

DUBLIN 00000183 001.2 OF 002

Classified By: PEO Chief Ted Pierce. Reasons 1.4 (b/d).

¶1. (C) Summary: The Irish government's plan to set up the National Asset Management Agency (NAMA) to take on the banks' property loan book is still riddled with questions, including the value of the loans and the structure and operation of the agency. The loans will be transferred to NAMA at a discount which will necessitate a capital infusion at leading Irish banks AIB and, perhaps, Bank of Ireland. While AIB raised Euro 1 billion through bond issuance, management will likely be forced to sell foreign assets and are trying (unsuccessfully so far) to get employees to agree to cost-cutting proposals. On April 30, AIB's Chairman, CEO, and Finance Director all announced their resignations. Further, a recent indication by Moody's that Ireland may lose its AAA rating within the next three months places added pressure on the Irish banks' ability to control costs and raise needed capital. The Irish government may overpay for the assets transferred to NAMA if it chooses to do everything in-house. Thanks to steadier economic stewardship, the government's hold on power looks a bit stronger but it is still likely to take a hit in the June local and European elections. End Summary.

NAMA STRUCTURE AND OPERATIONS REMAIN UNCLEAR

¶2. (SBU) In the weeks following the announcement of the NAMA, government officials have yet to provide details on the workings or management of the program. Under the initial announcement, NAMA would take over banks' entire commercial and property development books. However, it is likely that the proposal will be revised to exclude small loans. No minimum threshold has been set at present. Under EU competition rules, NAMA must be made available to foreign-owned banks operating in Ireland. The impact of these additional assets is currently unknown. The current indication is that NAMA will end up with Euro 90 billion in assets. However, the valuation of the banks' books has not yet commenced and the final figure could vary significantly from the current estimate. Further, the structure and operation of NAMA remains unclear. Some analysts have hinted that banks would continue to manage the assets under NAMA in conjunction with the government. Recently, the National Treasury Management Agency (NTMA) announced that it is considering hiring outside consultants (most likely from outside of Ireland) to take control of the assets on a contract basis. The Irish government is likely to auction off NAMA's assets over a period of several years (Ref A).

BANKS SCRAMBLING FOR EQUITY

¶3. (SBU) The decision to transfer all commercial and property development assets to NAMA is forcing banks to significantly write down a large percentage of their assets. Both the Irish government and the major banks have admitted that the government capital infusion will be insufficient to absorb extreme losses. Current expectations are that AIB will require at minimum an addition Euro 1.5 billion. AIB management initially indicated that it would consider selling either its Polish subsidiary or its investment in M&T Bank. While neither of these sales would generate the required funds, they would remove AIB's riskiest assets from its balance sheet. On April 27, AIB raised Euro 1 billion in a surprise bond sale, which took advantage of rising demand for government-backed debt. The bonds will be due on September 16, 2010 -- two weeks before the state guarantee scheme expires. While Bank of Ireland still runs the risk of a capital shortfall, its exposure to property and development loans is significantly less than that of AIB and no further capital-raising plans have been announced to date.

EMPLOYEES FIGHTING BACK

¶4. (SBU) On April 20, staff at AIB overwhelmingly rejected a proposal to accept a two year wage freeze and a mandatory 5% staff contribution toward the bank's defined benefit pension scheme. The vote was organized by the Irish Bank Officials' Association (IBOA), who are planning to bring the issue before the Labour Relations Commission. While AIB has indicated a willingness to work with unions, it has not, thus far, provided an alternative. While the leadership of the other major banks announced their departures soon after the

banking crisis arose, Minister of Finance Brian Lenihan, continued to express confidence in the Chief Executive of AIB, Eugene Sheehy. However, on April 30, Chairman Dermot Gleeson announced he will stand down in July 2010, Sheehy will retire once his successor is appointed, and finance director John O'Donnell will leave in August. In advance of an upcoming shareholders meeting, AIB will hold an extraordinary general meeting, which will give taxpayers a 25 percent voting share. Both internal and external candidates will be considered for the openings.

OUTSIDE EXPERTS QUESTIONING IRELAND'S PLAN

¶5. (C) Moody's issued a warning on April 17 that it may downgrade Ireland's AAA rating within three months due to continued concerns about the banking sector. Further, a group of 20 economists has called for Ireland to reconsider the establishment of NAMA and instead take the banks into temporary state ownership. In an opinion piece in the Irish Times, the group stated "Nationalization will better protect taxpayers' interests, produce a more efficient and longer lasting solution to our banking problems, be more transparent in relation to pricing of distressed assets, and be far more likely to produce a banking system free from the toxic reputation that our current financial institutions have deservedly earned." On April 28, EmbOff spoke with Alistair Hodgett of McKinsey and Company. He stated that Irish banks in particular have historically been unwilling to utilize outside consultants and that financial services specialists question Ireland's ability to properly manage NAMA.

COMMENT

¶6. (C) While Ireland has taken decisive action towards managing its financial crisis, it is likely to hit a few sizable bumps on the road. Without a solid credit review system, the government risks significantly overpaying for the

assets that NAMA receives and may face difficulties managing those assets once it receives them. The government is seriously considering taking on outside help and has spoken to financial institutions (some U.S.) about their asset management capabilities. Due to the perception that the government is handling the economic crisis better than it had been, the probability of a mid-term general election is less likely. However, the sorry state of the economy will likely prompt the Irish electorate to punish Fianna Fail (the leading party in the governing coalition) in the June local and EU Parliament elections.
FAUCHER